

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name IOSCO COUNTY ROAD COMMISSION	County IOSCO
Audit Date 12/31/05	Opinion Date 3/30/06	Date Accountant Report Submitted to State: 4/27/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGI).			✓

Certified Public Accountant (Firm Name)

GARDNER, PROVENZANO, SCHAUMAN & THOMAS, P.C.

Street Address

4855 STATE STREET

City

SAGINAW

State

MI

ZIP

48603

Accountant Signature

Stephen A. Henry

Date

4/27/06

IOSCO COUNTY ROAD COMMISSION
Iosco, Michigan

Financial Statements
December 31, 2005

Contents

Page Number

Independent Auditor's Report	
Management's Discussion and Analysis	1
Basic Financial Statements	
Statement of Net Assets and Governmental Fund Balance Sheet	9
Reconciliation of Governmental Fund Balance to Net Assets of Governmental Activities	10
Statement of Activities and Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance	11
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Fund to the Statement of Activities	12
Notes to Financial Statements	14
Required Supplemental Information	
Budgetary Comparison Schedule	24
Additional Supplemental Information	
Analysis of Revenues, Expenditures, and Changes in Fund Balance	26
Schedule of Federal Financial Awards	28
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	29



Gardner | Provenzano Schauman & Thomas

CERTIFIED PUBLIC ACCOUNTANTS

Frederick C. Gardner
Giacamo Provenzano
James R. Schauman
Heather A. Thomas

INDEPENDENT AUDITOR'S REPORT

March 30, 2006

Members of the Board
of County Road Commissioners
of Iosco County
Iosco, Michigan

We have audited the accompanying financial statements of the governmental activities of the Iosco County Road Commission, a component unit of Iosco County, as of and for the year ended December 31, 2005, which comprise the basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Iosco County Road Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Iosco County Road Commission as of December 31, 2005, and the respective change in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Members of the Board
of County Road Commissioners
of Iosco County
Page Two

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2006, on our consideration of the Iosco County Road Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information are not a required part of the financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The additional supplemental information is presented for purposes of additional analysis and is not a required part of financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements of Iosco County Road Commission and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Gardner, Provenzano, Schawman & Thomas, P.C.

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

IOSCO COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2005

INTRODUCTION

The Iosco County Road Commission (ICRC), a component unit of Iosco County, is a special purpose government engaged in a single government program of road maintenance and construction in the County of Iosco, Michigan. Our discussion and analysis of the financial performance of the ICRC provides an overview of the ICRC's financial activities for the fiscal year ended December 31, 2005. Please read this in conjunction with the financial statements.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the ICRC as a whole and present a longer-term view of the ICRC's finances. We refer to these statements as government-wide statements. At the fund level, the statements tell how the services the ICRC provided were financed in the short term as well as what remains for future spending. Because the ICRC is a single purpose government, and as allowed by GASB 34, fund financial statements are combined with government-wide statements and start on page 9.

THE STATEMENT OF NET ASSETS AND THE STATEMENT OF ACTIVITIES

One of the most important questions asked about the ICRC's finances is, "Is the Road Commission better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about Iosco County Road Commission as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Road Commission's net assets and the changes in net assets. You can think of the Road Commission's net assets, the difference between assets and liabilities, as one way to measure the Road Commission's financial health, or financial position. Over time, increases or decreases in the ICRC's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors to assess the overall health of the Road Commission.

IOSCO COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2005

**THE STATEMENT OF NET ASSETS AND THE STATEMENT OF ACTIVITIES
(CONT.)**

The audited financial activities of ICRC are presented herein. These statements include the following:

- Statement of Net Assets and Governmental Fund Balance Sheet,
- Reconciliation of the Balance Sheet Fund Balance to the Statement of Net Assets at December 31, 2005,
- Statement of Activities and Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance, and
- Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities for the Year Ended December 31, 2005.

CONDENSED FINANCIAL STATEMENTS

The following are condensed government-wide financial statements for ICRC.

Condensed Statement of Net Assets

	Assets	2005	2004
General fund		\$ 4,298,453	\$ 3,828,050
Capital assets		10,113,224	8,665,525
Total Assets		<u>\$ 14,411,677</u>	<u>\$ 12,493,575</u>
	Liabilities		
General fund liabilities		\$ 731,557	\$ 630,924
Total Liabilities		<u>731,557</u>	<u>630,924</u>
	Net Assets		
Restricted		3,566,896	3,197,126
Invested in capital assets - net of related debt		10,113,224	8,665,525
Total Net Assets		<u>\$ 13,680,120</u>	<u>\$ 11,862,651</u>

IOSCO COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2005

CONDENSED FINANCIAL STATEMENTS (CONT.)

The Iosco County Road Commission's net assets increased approximately 15% from \$11,862,651 to \$13,680,120 for the year ended December 31, 2005. This was primarily due to the investment in capital assets, net of accumulated depreciation and disposals that are now being reported in compliance with GASB 34. The increase is not as large as in past years as gravel and sealcoat projects are no longer considered capital assets and adjustments were made to past years capital assets to remove them from the total.

Condensed Statement of Activities

Revenue	2005	2004
Federal and State Revenue	\$ 4,239,069	\$ 4,795,939
Contributions from Local units	584,903	550,058
Other, including charges for services	720,053	807,500
Total Revenue	<u>5,544,025</u>	<u>6,153,497</u>
Expenses		
Primary prevention/routine maintenance	1,083,684	1,293,271
Local prevention/routine maintenance	1,404,553	1,385,833
Trunkline	539,330	697,477
Administrative	423,805	383,140
Other	275,184	(49,710)
Total Expenses	<u>3,726,556</u>	<u>3,710,011</u>
Change In Net Assets	<u>\$ 1,817,469</u>	<u>\$ 2,443,486</u>

The Road Commission's revenue for the year ended December 31, 2005, decreased approximately 9.9% from \$6,153,497 to \$5,544,025. This decrease was principally due to uncertainty of the funding level of the SAFETY-LU Federal Transportation Bill and dollar allocation to a much larger future project. Road maintenance expenditures increased 4.4% in 2005 from the fiscal year ending December 31, 2004. This was principally due to the increases associated with labor and equipment costs.

THE ROAD COMMISSION'S FUNDS

The Iosco County Road Commission experienced a successful construction year in 2005. The road commission constructed and paved 5 miles on the county primary road system and 18.75 miles on the local system along with several gravel and drainage projects on both systems. Thirty-six local road projects were completed in partnership with our townships. Seven of the eleven townships located within the county have dedicated road millages and they contributed over \$514,000 for local road improvements. The revenues of \$5,544,025 exceeded the \$5,175,030 expenditures for an increase in fund balance of \$368,995.

IOSCO COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2005

BUDGET ANALYSIS

ORIGINAL BUDGET VERSUS AMENDED BUDGET

Prior to the beginning of the year, the ICRC's budget is compiled based on certain assumptions and facts available at that time. During the year, the ICRC Board amends the budget to reflect changes in those original assumptions; facts and/or economic conditions that were unknown or that had changed since the original budget was compiled. The original 2005 budget was adopted in December of 2004. The final revenue budget for the year ended December 31, 2005, was adjusted by \$248,796 for the following reasons:

- State revenue was increased due to projects carried over into the 2005 construction year.
- Township revenue was increased by \$70,000 to reflect additional township projects.
- Trunk line non-maintenance was increased by \$85,000 to reflect additional projects requested by MDOT.
- Interest income was increased by \$48,000 due to the increase in interest rates.
- Non-certified road revenues were increased by \$43,000 as townships requested several gravel and ditching projects on non-certified roads.

The balances of the variances were from adjustments made to several individual revenue line items, none of which management considers significant.

The final amended expenditure budget for the year ended December 31, 2005 was \$298,512 greater than the original budget for the following reasons:

- There was a sharp increase in fuel costs for the fleet.
- Equipment rental hours increased due to many local projects completed.
- Under the MDOT contract, the state trunk line maintenance and non-maintenance line items were increased during the budget year to facilitate the extreme winter season and to complete additional MDOT projects.
- There were increased expenditures for the non-certified road projects.

IOSCO COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2005

AMENDED BUDGET VERSUS ACTUAL

The actual revenue exceeded the final budgeted revenue by \$231,229 for the following reasons:

- Township revenue exceeded the final budget by \$44,186 due to two projects that were completed in 2005 but were not expected to be completed until 2006.
- The MTF revenue is based upon historical averages, with a 60-day delay in receipt. 2005 revenue exceeded budget projections by \$176,967.

Total budgeted expenditures were \$786,482 less than actual for the following reasons:

- The Michigan State Treasury's clarifications of definitions to be used in infrastructure reporting necessitated shifts in budget account line items which caused Local Preservation-Structural Improvement and Local Routine Maintenance line items to become skewed. The total \$215,534 variance in the two budget items was primarily due to the allowance for severe winter snow removal expenditures and milder December weather.
- The direct equipment variance of \$136,338 was due to actual expense being less than the budgeted historical average.
- Fuel variance of \$83,997 was due to the uncertainty of fuel prices and usage requirements for winter snow removal.
- Capital outlay variance of \$98,899 was due to a tandem truck ordered in early 2005 not being delivered until January 2006. The variance was rolled into the 2006 budget.

The remaining differences in revenue and expenditure were due to variances in several line items, none of which management considers significant.

IOSCO COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2005

CAPITAL ASSETS

ICRC has capital assets for full accrual accounting purposes, net of accumulated depreciation, of \$10,113,224. This information, which includes infrastructure, is summarized below:

	2005	2004
Land and improvements	\$ 69,784	\$ 69,784
Buildings	1,834,326	1,834,326
Road equipment	5,639,746	5,615,921
Other equipment	258,638	264,586
Infrastructure assets	8,803,976	6,759,597
Total Capital Assets	16,606,470	14,544,214
Accumulated Depreciation	(6,493,246)	(5,878,689)
Net Capital Assets	<u>\$ 10,113,224</u>	<u>\$ 8,665,525</u>

Additional information regarding capital assets is located in the notes to the financial statements.

LONG-TERM DEBT

At year end, the ICRC's long-term debt consisted of compensated absences (accumulated sick and vacation pay) in the amount of \$278,867.

OTHER

Management is not aware of any currently known facts, decisions, or conditions expected to have a significant effect on next year or beyond on the Iosco County Road Commission's financial condition.

CONTACTING THE IOSCO COUNTY ROAD COMMISSION'S MANAGEMENT

This financial report is intended to provide our citizens and customers with a general overview of the Iosco County Road Commission's finances and to show the Iosco County Road Commission's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the Financial Manager at 3939 West M-55, Tawas City, MI 48763.

BASIC FINANCIAL STATEMENTS

IOSCO COUNTY ROAD COMMISSION
STATEMENT OF NET ASSETS AND
GOVERNMENTAL FUND BALANCE SHEET
DECEMBER 31, 2005

	General Fund	Adjustments	Statement of Net Assets
ASSETS			
Cash	\$ 117,920	\$ -	\$ 117,920
Investment	3,203,117	-	3,203,117
Accounts Receivable			
State Transportation Department	580,678	-	580,678
Trunkline	64,119	-	64,119
Sundry	55,314	-	55,314
Inventories			
Equipment materials and parts	51,064	-	51,064
Road materials	222,158	-	222,158
Deferred expenses	4,083	-	4,083
Capital assets, net of accumulated depreciation	-	10,113,224	10,113,224
Total Assets	<u>\$ 4,298,453</u>	<u>\$ 10,113,224</u>	<u>\$ 14,411,677</u>
LIABILITIES			
Accounts payable	\$ 100,319	\$ -	\$ 100,319
Accrued liabilities	69,713	-	69,713
Advances	256,395	-	256,395
Due to State of Michigan	11,263	-	11,263
Deferred credit other	15,000	-	15,000
Compensated absences	-	278,867	278,867
Total Liabilities	<u>452,690</u>	<u>278,867</u>	<u>731,557</u>
FUND BALANCE/NET ASSETS			
Fund Balances:			
Restricted for County Roads	3,845,763	(3,845,763)	-
Total Fund Balance	<u>3,845,763</u>	<u>(3,845,763)</u>	<u>-</u>
Total Liabilities and Fund Balance	<u>\$ 4,298,453</u>		
Net Assets:			
Invested in capital assets, net of related debt		10,113,224	10,113,224
Restricted for County Roads		3,566,896	3,566,896
Total Net Assets		<u>\$ 13,680,120</u>	<u>\$ 13,680,120</u>

See accompanying notes to the basic financial statements.

IOSCO COUNTY ROAD COMMISSION
RECONCILIATION OF GOVERNMENTAL FUND BALANCE TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2005

Total governmental fund balance	\$ 3,845,763
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	10,113,224
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds	(278,867)
Net Assets of Governmental Activities	<u>\$ 13,680,120</u>

See accompanying notes to the basic financial statements.

IOSCO COUNTY ROAD COMMISSION
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND STATEMENT
OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2005

	General Fund	Adjustments	Statement of Activities
Revenue			
Federal	\$ 397,256	\$ -	\$ 397,256
State	3,841,813	-	3,841,813
County	584,903	-	584,903
Other			
Interest earned	82,890	-	82,890
Special assessments	25,670	-	25,670
Licenses and permits	11,583	-	11,583
Sundry refunds	7,842	-	7,842
Charges for services	575,458	-	575,458
Miscellaneous	11,185	-	11,185
Gain (loss) equipment disposals	5,425	-	5,425
Total Revenue	<u>5,544,025</u>	<u>-</u>	<u>5,544,025</u>
Expenditures/expenses			
Primary preservation/structural improvements	1,021,286	(1,021,286)	-
Primary preventive/routine maintenance	1,083,684	-	1,083,684
Local preservation/structural improvements	1,023,093	(1,023,093)	-
Local preventive/routine maintenance	1,404,553	-	1,404,553
State trunkline maintenance	442,818	-	442,818
State trunkline non-maintenance	96,512	-	96,512
Administrative	423,805	-	423,805
Compensated absences	-	(775)	(775)
Net equipment expense	(44,437)	-	(44,437)
Net capital outlay			
Capital outlay	121,101	(121,101)	-
Depreciation	(421,790)	421,790	-
Depreciation	-	293,107	293,107
Deprecation on salt sheds	-	2,884	2,884
Other	24,405	-	24,405
Total Expenditures/expenses	<u>5,175,030</u>	<u>(1,448,474)</u>	<u>3,726,556</u>
Excess of Revenue Over (Under) expenditures/expenses	368,995	(368,995)	-
Change in Net Assets	-	1,817,469	1,817,469
Fund Balance - Beginning of Year,	3,476,768	(3,476,768)	-
Net Assets - Beginning of Year, restated	-	11,862,651	11,862,651
Fund Balance/Net Assets - End of Year	<u>\$ 3,845,763</u>	<u>\$ 9,834,357</u>	<u>\$ 13,680,120</u>

See accompanying notes to the basic financial statements.

IOSCO COUNTY ROAD COMMISSION
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUND TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2005

Net change in fund balance--total governmental funds	\$ 368,995
Amounts reported for governmental activities in the statement are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	1,743,690
Governmental funds do not record depreciation as an expense	(295,991)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (Increase in compensated absences)	775
Change in net assets of governmental activities	<u>\$ 1,817,469</u>

See accompanying notes to the basic financial statements.

NOTES TO FINANCIAL STATEMENTS

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Iosco County Road Commission's financial statements are prepared in accordance with United States generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements. Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with GASB pronouncements. The more significant accounting policies established in GAAP and used by the ICRC are discussed below.

Reporting Entity

The ICRC is governed by a three-member board of County Road Commissioners appointed by the Iosco County Board of Commissioners. The ICRC is a component unit of the Iosco County.

Based upon GASB Statement 14, which establishes criteria for determining the reporting entity, these financial statements present the Iosco County Road Commission, a discretely presented component unit of Iosco County, and include the ICRC's general operations fund.

Basic Financial Statements – Government-Wide Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the Road Commission. The Road Commission consists solely of government-type activities; no business-type activities exist.

This government-wide approach is focused more on the sustainability of the ICRC as an entity and the change in the Commission's net assets from the current year's activities.

Basic Financial Statement – Fund Financial Statements

The accounts of the Commission are organized on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The Commission's operations are accounted for in one fund, the general operations fund.

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned. Expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The ICRC considers revenues as available if they are collected soon after year-end.

Cash and Investments

Cash and cash equivalents are considered to be cash on hand and demand deposits.

Accounts Receivable

Accounts receivable are primarily amounts due from other governmental units.

Inventories and Prepaid Items

Inventories consist of equipment parts and road materials and are valued at the lower of cost or market. Inventory items are charged to road construction, maintenance, equipment repairs and operations as they are used.

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Capital Assets and Depreciation

Capital assets purchased are reported at historic cost. Contributed assets are reported at fair market value when received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Capital assets are capitalized and depreciated according to State guidelines. Depreciation is computed on the sum-of-the-year's-digits methods for road equipment and straight-line method for all other capital assets over the following estimated useful lives:

	<u>Years</u>
Buildings	25 – 50
Road equipment	5 – 8
Other equipment	4 – 20
Infrastructure	5 – 50

GASB 34 requires the ICRC to report and depreciate Infrastructure assets in its government-wide statements. Infrastructure assets include roads, bridges, traffic signals, etc.

Compensated Absences (vacation and sick leave)

It is the policy of the ICRC to permit employees to accumulate earned but unused sick and vacation pay benefits.

Budgets and Budgetary Accounting

The Road Commission follows these procedures in establishing the budgetary data reflected in the financial statements:

- A budget is adopted by the Board of County Road Commissioners of Iosco County prior to December 31 of each year. The budget includes proposed expenditures and a means of financing them.
- The Iosco County Road Commission approved budget is then submitted to the Iosco County Board of Commissioners.
- The budget is prepared by the Road Commission on a basis consistent with U.S. generally accepted accounting principles and revised as deemed necessary during the year.
- Budgets are prepared using the modified accrual basis of accounting.
- The budgetary information presented has been amended throughout the year.

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Law requires budget amendments as needed to prevent actual expenditures from exceeding those provided in the budget. Expenditures, which exceeded appropriations, are illustrated in required supplemental information.

NOTE 2--CASH AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the Road Commission to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligations repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

All special revenue fund investments are held in the name of the Iosco County Treasurer; therefore, the insured amount of Road Commission investment is not determinable. Since the County has in excess of the \$100,000 limits, all Road Commission investments are presumed to be uninsured.

The ICRC's deposits are categorized below according to level of credit risk:

- Category 1 represents the ICRC's insured or collateralized deposits with securities held by the ICRC or by its agent in the ICRC's name.
- Category 2 represents the ICRC's collateralized deposits with securities held by the pledging financial institution's trust department or agent in the ICRC's name.
- Category 3 represents the ICRC's uncollateralized deposits including any bank balances that are collateralized with securities held by the pledging financial institution's trust department or agent but not in the ICRC's name.

IOSCO COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

NOTE 2--CASH AND INVESTMENTS (CONT.)

The balance of cash and investments at December 31, 2005 is as follows:

	Category			Bank Balance	Carrying Amount
	1	2	3		
Demand deposits	\$ 100,000	\$ -	\$ 129,653	\$ 229,653	\$ 117,520
Investments	-	-	3,203,117	3,203,117	3,203,117
Cash on hand	-	-	-	-	400
Totals	<u>\$ 100,000</u>	<u>\$ -</u>	<u>\$ 3,332,770</u>	<u>\$ 3,432,770</u>	<u>\$ 3,321,037</u>

NOTE 3--CAPITAL ASSETS AND DEPRECIATION

Changes in capital assets for the year are as follows:

	Balance 1/1/2005	Additions	Retirements	Balance 12/31/2005
Capital Assets Not Being Depreciated				
Land	\$ 39,165	\$ -	\$ -	\$ 39,165
Land improvements	30,619	-	-	30,619
Total Land and improvements	<u>69,784</u>	<u>-</u>	<u>-</u>	<u>69,784</u>
Other Capital Assets				
Buildings and improvements	1,834,326	-	-	1,834,326
Road equipment	5,615,921	121,101	(97,276)	5,639,746
Other equipment	264,586	-	(5,948)	258,638
Infrastructure and improvements	6,759,597	2,044,379	-	8,803,976
Total Other Capital Assets	<u>14,474,430</u>	<u>2,165,480</u>	<u>(103,224)</u>	<u>16,536,686</u>
Total Capital Assets	<u>14,544,214</u>	<u>2,165,480</u>	<u>(103,224)</u>	<u>16,606,470</u>
Accumulated Depreciation				
Land improvements	10,061	3,062	-	13,123
Buildings and improvements	885,734	36,687	-	922,421
Road equipment	4,607,226	367,770	(97,276)	4,877,720
Other equipment	207,333	17,155	(5,948)	218,540
Infrastructure and improvements	168,335	293,107	-	461,442
Total Accumulated Depreciation	<u>5,878,689</u>	<u>717,781</u>	<u>(103,224)</u>	<u>6,493,246</u>
Total Net Capital Assets	<u>\$ 8,665,525</u>	<u>\$ 1,447,699</u>	<u>\$ -</u>	<u>\$ 10,113,224</u>

IOSCO COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

NOTE 4--LONG-TERM LIABILITIES

Long-term liabilities consist solely of accrued compensated absences payable.

Following is a summary of the changes in long-term liabilities for the year ended December 31, 2005:

	Balance 1/1/2005	Increase	Decrease	Balance 12/31/2005
Accrued compensated				
absences	\$ 279,642	\$ 14,801	\$ (15,576)	\$ 278,867
Total	\$ 279,642	\$ 14,801	\$ (15,576)	\$ 278,867

NOTE 5--UNEMPLOYMENT COMPENSATION

The Road Commission is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the Road Commission must reimburse the Michigan Employment Security Commission for all benefits charged against the Road Commission. There was no unemployment expense for the year ended December 31, 2005. The ICRC received a refund in the amount of \$822 from the year ended December 31, 2004.

NOTE 6--PENSION PLAN

Plan Description

The Road Commission's defined benefit pension plan provides retirement, disability, and death benefits to plan members and beneficiaries. The Road Commission participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board, Act No. 427 of the Public Acts of 1984, as amended by 1996 PA 220, establishes and amends the benefit provisions of the participants in MERS. The fiscal year for the retirement plan ends December 31. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

IOSCO COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

NOTE 6--PENSION PLAN (CONT.)

Funding Policy

The Road Commission is required to contribute at an actuarially determined rate based on covered payroll; the rate at December 31, 2005 was 6.05% for hourly employees and 13.63% for salaried employees. The ICRC's hourly employees are required to contribute 6.7% of annual compensation and salaried employees are required to contribute 8.97% of annual compensation. The contribution requirements of the Road Commission are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members, if any, are established and may be amended by the Road Commission depending on the MERS contribution program adopted by the Road Commission.

Annual Pension Cost

For the year ended December 31, 2005, the Road Commission's annual pension cost was \$127,971, which is equal to the required contribution. The required contribution was determined as part of the December 31, 2003 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) an assumed rate of investment return which is used to discount liabilities and project what plan assets will earn investment of present and future assets of 8.0%, (b) a mortality table projecting the number of employees who will die before retirement and the duration of benefit payments after retirement, (c) assumed retirement rates projected when employees will retire and commence receiving benefits, (d) a set of withdrawal and disability rates to estimate the number of employees who will leave the work force before retirement, and (e) assumed rates of salary increases to project employees compensation in future years. The actuarial value of MERS assets was determined on a basis of a valuation method that assumes the fund earns the expected rate of return and includes an adjustment to reflect market value.

Three-year Trend Information

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12/31/2003	\$ 100,772	100%	-
12/31/2004	\$ 124,483	100%	-
12/31/2005	\$ 127,971	100%	-

IOSCO COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

NOTE 6--PENSION PLAN (CONT.)

Annual Pension Cost (cont.)

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability Entry Age (b)	Unfunded (Over Funded) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a)/ (c)
12/31/2002	\$ 3,638,594	\$ 4,955,285	\$ 1,316,691	73%	\$ 1,392,223	95%
12/31/2003	\$ 3,951,538	\$ 5,610,261	\$ 1,658,723	70%	\$ 1,429,139	116%
12/31/2004	\$ 4,254,984	\$ 6,147,406	\$ 1,892,422	69%	\$ 1,501,355	126%

NOTE 7--RISK MANAGEMENT

The Road Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omission; injuries to employees; and natural disasters. The commission manages its workers' compensation through commercial insurance. The commission manages all other risks by participating in Michigan County Road Commission Self-Insurance Pool (MCRCSIP), a trust fund established by the road commissions in the State of Michigan. The MCRCSIP is a public entity risk pool currently operating as a common risk management and insurance program. The commission pays an annual premium to MCRCSIP for its general liability coverage. The MCRCSIP is self-sustaining through member premiums and provides reinsurance through commercial companies for claims in excess of certain limits.

NOTE 8--LITIGATION

The Road Commission is a party to various legal proceedings, which normally occur in governmental operations for which the Road Commission carries commercial insurance.

NOTE 9--POST-EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 6, the Iosco County Road Commission provides post-employment health, dental and life insurance benefits, in accordance with employee working agreements, to all employees who retire at the age of 60 until they reach full social security retirement age.

For those employees who terminate without retirement, healthcare benefits are terminated. At that time, the former employee has continuation rights to health insurance coverage under the COBRA law of 1985.

NOTE 9--POST-EMPLOYMENT BENEFITS (continued)

During the year ended December 31, 2005, retirees' health insurance was provided as traditional Blue Cross Blue Shield with a major medical rider. The ICRC paid for approximately 50% of the cost of coverage for retirees and surviving spouses eligible to participate in the group plan. The remainder of the premium was paid by the retiree. For the year ended December 31, 2005, four employees met the eligibility requirements for this benefit.

Once a retiree reaches full social security retirement age, the ICRC reimburses up to \$400 for medical expenses not covered by insurance within the calendar year. For the year ended December 31, 2005, twenty-two retirees were eligible for this benefit.

Expenditures for post-employment healthcare are recognized as claims and premiums are paid. During the year ended December 31, 2005, the cost for claims and premiums for retirees, dependents, and surviving spouses was \$21,556.

NOTE 10--RESTRICTED ASSETS

The restricted asset balance of \$15,000 is being held for future maintenance on a sub-division railroad crossing.

NOTE 11--FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the year ended December 31, 2005, the Federal aid received and expended by the Road Commission was \$397,256 for contracted projects and \$0 for negotiated projects. Contracted projects are defined as projects performed by private contractors paid for and administered by MDOT (they are included in MDOT's single audit). Negotiated projects are projects where the road commission administers the grant and either performs the work or contracts it out. The Road Commission would be subject to single audit requirements if they expended \$500,000 or more for negotiated projects.

Note 12—Prior Period Adjustment

Net assets at December 31, 2004, have been decreased by \$503,475. The adjustment was made to accommodate the new guidelines provided by the State in terms of the capitalization of infrastructure.

Had the guidelines been established before December 31, 2004 the change in net assets for the year ended December 31, 2004, would have been decreased by \$503,475.

REQUIRED SUPPLEMENTAL INFORMATION

IOSCO COUNTY ROAD COMMISSION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2005

	Original Budget	Final Budget	Actual	Actual Vs. Final Budget Favorable (Unfavorable)
Revenues				
Federal	\$ 400,000	\$ 404,000	\$ 397,256	\$ (6,744)
State				
EDC	37,000	95,000	91,550	(3,450)
MTF	3,500,000	3,500,000	3,676,967	176,967
State forest road funds	73,000	73,296	73,296	-
County				
Township	400,000	470,000	514,186	44,186
US forest service contribution	80,000	70,000	70,717	717
Other				
Trunkline maintenance	424,000	420,000	432,026	12,026
Trunkline non-maint	-	85,000	85,279	279
Non-certified road maint	25,000	68,000	54,184	(13,816)
Other contributions	25,000	2,000	11,811	9,811
Special assessments	50,000	24,500	25,670	1,170
Interest	22,000	70,000	82,890	12,890
Licenses and permits	8,000	10,000	11,583	1,583
Gain of disposal of equipment	5,000	6,000	5,425	(575)
Miscellaneous revenue	15,000	15,000	11,185	(3,815)
Total Revenues	5,064,000	5,312,796	5,544,025	231,229
Expenditures				
Primary preservation/structural improvements	1,141,500	1,173,440	1,021,286	152,154
Primary preventive/routine maintenance	1,124,000	1,167,380	1,083,683	83,697
Local preservation/structural improvements	1,111,760	757,960	1,023,093	(265,133)
Local preventive/routine maintenance	1,176,240	1,885,220	1,404,553	480,667
State Trunkline Maintenance	424,000	450,000	442,818	7,182
State Non-Maintenance	-	96,512	96,512	-
Administrative	425,000	450,000	423,805	26,195
Indirect Equipment Expense	447,000	451,000	432,446	18,554
Direct Equipment Expense	904,000	810,000	673,662	136,338
Operating Expense (Fuel & Oil)	274,500	350,000	266,003	83,997
Less Equipment Rentals	(1,200,000)	(1,450,000)	(1,416,548)	(33,452)
Capital Outlay	260,000	220,000	121,101	98,899
Less Depreciation Credits	(450,000)	(450,000)	(421,789)	(28,211)
Non-Certified Road Maintenance	25,000	50,000	24,405	25,595
Total Expenditures	5,663,000	5,961,512	5,175,030	786,482
Excess of Revenues Over (Under) Expenditures/	(599,000)	(648,716)	368,995	1,017,711
Fund Balance, Beginning of Year,	3,476,768	3,476,768	3,476,768	-
Fund Balance, End of Year	<u>\$ 2,877,768</u>	<u>\$ 2,828,052</u>	<u>\$ 3,845,763</u>	<u>\$ (1,017,711)</u>

See independent auditor's report on supplementary information.

ADDITIONAL SUPPLEMENTAL INFORMATION

IOSCO COUNTY ROAD COMMISSION
ANALYSIS OF REVENUE, EXPENDITURES, AND CHANGES IN
FUND BALANCE--SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005

	Appropriated			
	Primary Roads	Local Roads	County Roads	Total
Revenues				
Federal				
Surface transportation				
program	\$ 200,984	\$ 39,330	\$ -	\$ 240,314
D Funds	156,942	-	-	156,942
Total federal	<u>357,926</u>	<u>39,330</u>	<u>-</u>	<u>397,256</u>
State				
Engineering	6,100	3,900	-	10,000
Urban road	253,310	143,095	-	396,405
Allocation	1,990,187	1,279,524	-	3,269,711
Snow removal	851	-	-	851
Forest funds	-	73,296	-	73,296
Economic development	91,550	-	-	91,550
Total State	<u>2,341,998</u>	<u>1,499,815</u>	<u>-</u>	<u>3,841,813</u>
County				
Township	-	514,186	-	514,186
Other government	-	70,717	-	70,717
Total County	<u>-</u>	<u>584,903</u>	<u>-</u>	<u>584,903</u>
Other				
Interest earned	40,616	23,209	19,065	82,890
Special assessments	-	25,670	-	25,670
Licenses and permits	-	-	11,583	11,583
Sundry refunds	-	-	7,842	7,842
Charges for services	-	-	575,458	575,458
Miscellaneous	-	11,185	-	11,185
Gain (loss)				
equipment disposals	2,127	1,776	1,522	5,425
Total Other	<u>42,743</u>	<u>61,840</u>	<u>615,470</u>	<u>720,053</u>
Total Revenues	<u>\$ 2,742,667</u>	<u>\$ 2,185,888</u>	<u>\$ 615,470</u>	<u>\$ 5,544,025</u>

See independent auditor's report on supplementary information.

ANALYSIS OF REVENUE, EXPENDITURES, AND CHANGES IN
FUND BALANCE--SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005

Expenditures	Appropriated		County Roads	Total
	Primary Roads	Local Roads		
Preservation-structural improvements	\$ 1,021,286	\$ 1,023,093	\$ -	\$ 2,044,379
Preventive-routine maintenance	1,083,684	1,404,553	-	2,488,237
Other				
Trunkline maintenance	-	-	442,818	442,818
Trunkline nonmaintenance	-	-	96,512	96,512
Administration	196,817	226,988	-	423,805
Equipment	362,060	771,144	238,906	1,372,110
Less: equipment rental	(373,787)	(796,117)	(246,643)	(1,416,547)
Capital outlay	100,000	16,001	5,100	121,101
Less: depreciation credits and retirements	(165,375)	(138,102)	(118,313)	(421,790)
Non certified road main.	-	-	24,405	24,405
Total other	119,715	79,914	442,785	642,414
Total expenditures	2,224,685	2,507,560	442,785	5,175,030
Excess of revenue over (under) expenditures	517,982	(321,672)	172,685	368,995
Other financing sources (uses)				
Optional transfer	(175,000)	175,000	-	-
Optional transfer	-	100,000	(100,000)	-
Fund Balance, Beginning	1,685,827	968,249	822,692	3,476,768
Fund Balance, Ending	\$ 2,028,809	\$ 921,577	\$ 895,377	\$ 3,845,763

IOSCO COUNTY ROAD COMMISSION
SCHEDULE OF FEDERAL FINANCIAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2005

Federal Grantor/Pass Through <u>Grantor/Program or Cluster Title</u>	<u>Federal</u> <u>CFDA</u> <u>Number</u>	<u>Pass-through</u> <u>Entity</u> <u>Number</u>	<u>Federal</u> <u>Expenditures</u>
U. S. Department of Transportation Highway Research, Planning and Construction <u>Michigan Department of Transportation</u>	20.205	78230A 77585A 77583A	\$ 39,330 200,984 156,942
<u>Total Pass-Through</u>			<u>\$ 397,256</u>

Note: Federal financial assistance, received under the highway planning and construction program, in the amount of \$397,256 was administered by the State of Michigan. The Road Commission has no responsibilities regarding fiscal or compliance controls over such assistance.

See independent auditor's report on supplementary information.



**Gardner | Provenzano
Schauman & Thomas**

CERTIFIED PUBLIC ACCOUNTANTS

Frederick C. Gardner
Giacamo Provenzano
James R. Schauman
Heather A. Thomas

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

March 30, 2006

Members of the Board
of County Road Commissioners
of Iosco County
Iosco, Michigan

We have audited the financial statements of the governmental activities of the Iosco County Road Commission, a component unit of Iosco County, as of and for the year ended December 31, 2005, which collectively comprise the financial statements of the Iosco County Road Commission and have issued our report thereon dated March 30, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Iosco County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a matter involving internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Iosco County Road Commission's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

We noted an absence of appropriate segregation of duties consistent with appropriate control objectives.

Members of the Board
of County Road Commissioners
of Iosco County
Page Two
March 30, 2006

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

Compliance

As part of obtaining reasonable assurance about whether Iosco County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of management and the Board of County Road Commissioners. However, this report is a matter of public record and its distribution is not limited.

Gardner, Proroyans, Schauman & Thomas, P.C.

Certified Public Accountants